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Korea's Economic Challenges in the 4th Industrial Revolution

Excerpted from an [address](#) by Dr. Il SaKong, Chairman of the Institute for Global Economics and former Korean Finance Minister, at the East-West Center international alumni conference in Seoul on Aug. 23, 2018.

The most urgent challenge for Korea today is how to properly adapt to the rapidly developing 4th industrial revolution and to gain competitive edge. As we all know, this paradigm shift affects not just doing business, production, distribution, or consumption, but every aspect of our way of life.

According to a frequently quoted recent Davos report, 65% of primary school children entering school today will end up working in entirely new jobs which do not exist now. It also foresaw most of these jobs will be complex and highly interrelated. Consequently, workers' abilities to adjust to new jobs, to get new skills and knowledge, and to communicate with others who have different specialties will become especially important in the future.



Dr. Il SaKong speaking at the EWC 2018 international alumni conference

These characteristics of the revolution suggest the necessity of various policy changes. Most importantly, there is an urgent necessity for fundamental reform in the current education and

training system, and labor market structure and policy.

For example, frequent job changes would require genuine lifelong learning and training. In this situation, won't the current four-year university system soon be obsolete? How about the present rigidly organized system of major fields, separating humanities and social sciences from natural sciences and engineering?

The inevitability of high job mobility would require both labor market flexibility and new social safety nets for workers. The existing industry-based labor market policy needs to be reoriented toward "protecting workers, not jobs."

It is also urgent for the government's fundamental regulatory paradigm to adapt to the 4th industrial revolution era adequately. Most of the existing laws and regulations for specific industries have already become barriers for new entrepreneurial activities which cross a number of different industries. For example, since Korea is one of the most highly digitalized economies, the availability of big data is very high. But the utilization rate of these data is much lower than in many other OECD countries. The government's new regulations should be based on the principle of "negative list system" which has been much talked about in Korea.

This leads me to another urgent challenge facing Korea today, and that is how to enhance the nation's rapidly declining economic growth potential. Up until the early 2000s, Korea's economic growth potential was up around 5%. But today it is estimated to be around 3%, or perhaps even lower than that.

Obviously, as economies develop and mature, they are bound to experience steadily declining growth potential. But Korea's rate of decline seems too fast. Furthermore, it seems to me that there is still enough room for enhancing it with appropriate policy measures.

Low economy-wide productivity or overall systemic efficiency, which economists call "total factor productivity," along with low investment, are known to be main causes for the decline. Therefore, a favorable entrepreneurial ecosystem and the reforms previously discussed would certainly help enhance both investment and systemic productivity. This means that those reforms are even more urgently needed for Korea to face both major 4th industrial revolution economic challenges simultaneously.

Korea can have a leadership role in the world, especially in two specific roles. First, since Korea's human resources still have fresh first-hand experience of development in both the public and private sectors, Korea can and should be much more active in assisting many developing nations. I believe these efforts need to be better organized and coordinated at the government level.

Second, being a major beneficiary of the existing world order, which is under serious threat, Korea should take a more active leadership role in preserving it. Of course, as a non-superpower, Korea has obvious limits to its global leadership. However, Korea does have a unique advantage as a member of the OECD that is still easily identified with developing and emerging countries.

Consequently, Korea is well positioned to play an intermediating leadership role between developed and developing nations. More specifically, Korea, together with other like-minded G20 member countries, should try to lead the G20 toward the more functional global economic governance and closer policy coordination needed in this highly uncertain economic and financial environment.

As one of the fastest-aging nations in the world today, with rapidly declining economic growth potential in the midst of the accelerating 4th industrial revolution, Korea urgently needs to reset the national agenda on growth strategies and policies. Let's not get stuck in what I would call a "premature high income trap" and disappoint the world, especially those developing nations looking for a role model in their endeavors for advancement.

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